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MERCANTILE STORES COMPANY, INC.

ANNUAL REPORT

JANUARY 31ST, 1936

MRB
CORP. FILE

15 Exchange Place,
Jersey City, New Jersey,
April 7, 1936.

To the Stockholders of
Mercantile Stores Company, Inc.:

Consolidated Balance Sheet as of January 31, 1936 and Consolidated Profit-and-Loss Account for the year ended January 31, 1936 of your Company and its subsidiaries is submitted herewith.

The net profit for the fiscal year ended January 31, 1936 after all deductions including provisions for depreciation and Federal income taxes of $288,672.01 and $66,330.40 respectively, was $120,486.04. This profit compares with a loss of $358,710.56 for the previous year, which included an extraordinary loss of $62,494.71 incurred in the liquidation of The Cohen Company of Richmond, Virginia.

This report has been amplified to include an income statement, and the balance sheet contains an analysis of surplus. Pursuant to the action of the Board of Directors, the total surplus which existed at January 31, 1935 has been segregated, and a policy has been adopted whereby earned surplus of the corporation since that date is separately shown.

The Directors have also approved the transfer to surplus account as of February 1, 1935 of special reserves aggregating $2,695,340.04, which had been provided principally at the inception of the company in 1919 and in previous balance sheets had been deducted from fixed assets. This transfer was made in order that the fixed assets account would be stated on the basis of cost less accrued depreciation.

Two of the stores were temporarily closed by the recent floods. Merchandise was removed before the flood waters reached the properties. The merchandise loss will be less than $5,000, but there was, of course, a loss of sales volume during this period.

Customers' receivables increased $471,751.31 during the year largely because of increased installment sales. The results of ageing show an improvement, and during the year a substantial recovery was made from accounts previously written off.

The inventory has remained at practically last year's figure although sales increased during the year 5.5% to $28,360,905.50. It is our policy to liquidate slow-selling merchandise promptly, and the management considers the inventory to be in a highly satisfactory condition.

Federal income taxes for the year amounted to $66,330.40. This amount would have been considerably less had we been allowed to file a consolidated return inasmuch as certain of the stores continue to show operating losses.

We believe that definite progress is being made as the result of our efforts to reduce expenses and improve personnel.

The management wishes to express its sincere appreciation for the loyalty and efficient cooperation of all employees.

By Order of the Board of Directors,

F. G. Kingsley,
President.

MERCANTILE STOR

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AND SUBSIDIAR

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 928,677.84
Marketable securities, at cost not in excess of market		83,895.00
Customers' accounts and notes receivable—		
Regular retail terms	$2,459,599.00	
Installment terms	2,696,644.52	
	$5,156,243.52	
Less—Reserves for doubtful accounts, etc.	460,445.38	4,695,798.14
Due from suppliers, insurance companies on policy cancellations, etc.		240,879.52
Merchandise inventories, quantities and condition determined by the companies—valued on the basis of cost or market, whichever is lower, as determined by the retail inventory method—		
On hand	$3,444,121.45	
In transit	362,461.72	3,806,583.17
TOTAL CURRENT ASSETS		$ 9,755,833.67
OTHER ASSETS:		
United States Government securities deposited in escrow as guarantee of performance of a lease—at market value (cost $103,968.74)	$ 102,493.74	
Deposits with reciprocal insurance companies	45,221.36	
Miscellaneous securities, etc.	40,416.48	188,131.58
FIXED ASSETS:		
Land and buildings owned and under purchase contracts, buildings on leased ground, and leaseholds (of which, property of the net book value of $274,592.93 is pledged to secure performance of a lease)—at cost, less depreciation of $1,624,213.97	$4,871,182.88	
Store fixtures—at cost, less depreciation of $1,059,242.05	1,247,443.15	
Delivery equipment—at value appraised by the management	34,039.94	
	$6,152,665.97	
Land and buildings not used in store operations—at cost, less depreciation of $26,535.73	228,007.13	6,380,673.10
UNEXPIRED INSURANCE PREMIUMS, SUPPLY INVENTORIES AND PREPAID EXPENSES.		181,408.18
		$16,506,046.53

NOTES:

(1) For Federal income tax purposes, the companies follow the policy of reporting gro income but not included as taxable income amounted to approximately $800,000.0 may be payable thereon in subsequent years.

(2) As of February 1, 1935, special reserves for revaluation of fixed assets (provided viously deducted from fixed assets in the balance sheet, were transferred to surp resolution of the Board of Directors.
Surplus of $594,418.30 is restricted by reason of purchase of treasury stock until s

(3) Contingent liabilities on customers' notes discounted and on a repurchase agreeme

ES COMPANY, Inc.

orporation)

Y COMPANIES

HEET, JANUARY 31st, 1936

LIABILITIES

CURRENT LIABILITIES:			
Notes payable to banks			$ 1,300,000.00
Accounts payable—			
For merchandise		$ 755,299.99	
For merchandise in transit		362,461.72	
For expenses and sundries		445,948.83	1,563,710.54
Accrued taxes (other than Federal income), salaries, rent and interest			350,917.37
Mortgage and real estate obligations payable within one year			82,733.34
Preferred stock dividends payable February 15, 1936			11,949.00
Reserve for Federal income taxes (Note 1)			66,330.40
Reserve for redemption of trading stamps issued by subsidiary company			56,973.33
TOTAL CURRENT LIABILITIES			$ 3,432,613.98
MORTGAGE AND OTHER REAL ESTATE OBLIGATIONS—Maturing after one year			384,933.26
RESERVE FOR CONTINGENCIES			131,199.49
CAPITAL STOCK AND SURPLUS:			
Capital stock—			
Preferred stock—7% cumulative, $100-par value—callable at $105—			
Authorized and issued, 10,410 shares	$1,041,000.00		
Less in treasury, 3,582 shares	358,200.00	$ 682,800.00	
Common stock—no-par value (stated value $36.66⅔ per share)—			
Authorized and issued, 158,238 shares	$5,802,060.00		
Less in treasury, 14,113 shares (of which 5,000 shares are reserved under option to an officer at $15.00 per share)	517,476.66	5,284,583.34	
Surplus as of February 1, 1935, segregated by the Board of Directors (Note 2)		6,517,226.42	
Earned surplus since February 1, 1935 (Note 2)—			
Net profit for the year ended January 31, 1936, per statement attached	$ 120,486.04		
Deduct—Preferred stock dividends declared, at $7.00 per share	47,796.00	72,690.04	12,557,299.80
			$16,506,046.53

profits on installment sales as collected. At January 31, 1936 gross profits taken into and the reserve for Federal income tax, as above, does not provide for the tax which

incipally at the inception of the company in 1919) in the amount of $2,695,340.04, pre- s and the total surplus accounts as of that date were segregated, in accordance with a

h stock is sold or cancelled.

—$55,670.86.

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT-AND-LOSS ACCOUNT
For the Year Ended January 31st, 1936

Net sales (including sales of leased departments)		$28,360,905.50
Cost of goods sold, selling, operating and administrative expenses, exclusive of the items listed below		28,068,337.50
		$ 292,568.00
Other income—carrying charges on installment accounts and miscellaneous income (net)		237,705.67
		$ 530,273.67
Deduct:		
Depreciation	$288,672.01	
Interest expense	54,785.22	343,457.23
Net profit before provision for Federal income taxes		$ 186,816.44
Combined provisions for Federal income taxes of parent company and subsidiary companies with taxable income		66,330.40
Net profit carried to earned surplus		$ 120,486.04

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

67 WALL STREET
NEW YORK

TO THE BOARD OF DIRECTORS OF
MERCANTILE STORES COMPANY, INC.:

We have made an examination of the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1936, and of the statement of consolidated profit-and-loss account for the year ended that date. In connection therewith, we examined or tested accounting records and other supporting evidence of the company and certain of its more important subsidiaries, and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. The total assets of the companies whose records we examined represented 81.18% of the total consolidated assets, and the net sales of these companies represented 71.67% of the total consolidated net sales. The accounts of the subsidiary companies, whose records we did not examine, are included in the consolidated statements on the basis of company reports which were reviewed by us.

In our opinion, based upon the examination and review outlined in the preceding paragraph, the accompanying consolidated balance sheet, including the notes therein, and related statement of consolidated profit-and-loss account fairly present, in accordance with accepted principles of accounting, consistently maintained by the companies during the year under review, the financial position of the companies at January 31, 1936 and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
April 4, 1936.